

Committee:	Executive	Agenda Item No.:	9.
Date:	14 th January 2013	Status	Open
Subject:	Medium Term Financial Plan Update		
Report by:	Director of Corporate Resources		
Other Officers Involved	Assistant Director – Accountancy and IT. Chief Accountant		
Director	Director of Resources		
Relevant Portfolio Holder	Councillor E. Watts, Leader of the Council.		

RELEVANT CORPORATE AIMS

STRATEGIC ORGANISATIONAL DEVELOPMENT – to continually improve the efficiency and effectiveness of all Council Services by maximising the potential use of Council resources.

TARGETS

All.

VALUE FOR MONEY

This report is intended to ensure that the Council has in place a robust budget in respect of 2013/14 and future years. A robust budget is an essential foundation for securing Value for Money in that it helps ensure that the Council's service plans are in line with its underlying level of financial resources.

1. Executive Summary

- 1.1. Officers have completed the work necessary to prepare a roll forward budget in respect of both next year (2013/14) and the following two financial years. The Council has now received details of the level of government funding that will be available for the two earlier years (although there remain some uncertainties regarding 2014/15). This report in effect brings together the details of the Council's projected income and expenditure to provide Members with an overview of the Council's financial position in respect of 2013/14 and the following two financial years. With regard to the General Fund the report indicates

that some £0.305m of savings will need to be achieved in 2013/14 and a sum of £1.030m to be achieved in 2014/15. On the basis of a series of Government announcements it is clear that the current period of reductions in public expenditure will continue at least until 2018, and Members need to take this ongoing financial pressure into account in their approach to the shortfalls which have been identified in respect of the next three financial years.

- 1.2. The report also provides a summary in respect of the Housing Revenue Account (HRA) and the Capital Programme. These are in effect now locally resourced activities and as such are less directly affected by the annual announcement concerning government funding. Accordingly they are not covered in the same level of detail within this report which updates Members concerning the Government's financial settlement, although full details of these latter two accounts will be included as part of the Medium Term Financial Plan report which will be provided to Members over the next few weeks.

2. Introduction and Background

- 2.1. This report updates Council concerning the current position with regard to the Council's budget over the current and next two financial years, giving particular emphasis to next financial year (2013/14). The report is written in the light of the details provided in the Government's grant settlement in respect of 2013/14 and 2014/15 which was announced on 19th December 2012. This report is based upon the details given in that settlement in conjunction with the work that has been undertaken in order to develop a roll forward expenditure budget in respect of 2013/14 and future financial years. The work being undertaken on the roll forward budget was reported to Council at its meeting of 12th December 2012.
- 2.2. Given that both draft expenditure budgets and details of the level of resources are now available the Council is in a position to consider the actual – as opposed to the projected - financial shortfall in respect of future years. With regard to agreeing the budget for 2013/14, detailed budgets will be approved by Executive at its meeting on 6th February 2013 and will then be taken forward for consideration by Budget Scrutiny Committee before being considered at the budget setting meeting of Council on the 13th February and the Council Tax setting meeting on 1st March 2013. Given the amount of work that needs to be undertaken prior to agreeing a budget on 1st March it is anticipated that the budget in respect of 2013/14 will initially need to be balanced by way of a "savings to be identified" line within the budget. Officers will be working with the Executive in order to identify the measures that are

necessary in order to offset the reductions in the level of Government grant, and regular reports will be brought back to both Executive and to Council to report on progress in achieving the necessary level of savings.

2.3. The full details of the Government grant settlement are set out in the table below.

	2012/13	2013/14	2014/15	2015/16
	£000's	£000's	£000's	£000's
Revenue Support Grant (2015/16 is estimated)	(5,531)	(3,142)	(2,233)	(1,933)
Retained Non Domestic Rates (2015/16 is estimated)	0	(2,090)	(2,167)	(2,247)
Council Tax Support Funding (2014/15 and 2015/16 is estimated)	0	(1,026)	(1,026)	(1,026)
New Homes Bonus – 1 (2011/12)	(125)	(125)	(125)	(125)
New Homes Bonus – 2 (2012/13)	(186)	(186)	(186)	(186)
New Homes Bonus – 3 (2013/14)	0	(170)	(170)	(170)
New Homes Bonus – 4 (2014/15) (Estimated)	0	0	(150)	(150)
New Homes Bonus – 5 (2015/16) (Estimated)	0	0	0	(150)
Transition Grant / Efficiency Grant	(1,930)	(996)	0	0
Council Tax Freeze Grant (2011/12)	(90)	(90)	(90)	0
Homelessness Prevention	(50)	(50)	(50)	(50)
Community Right to Bid and Challenge Grants (2015/16 is estimated)	(13)	(16)	(16)	(16)
Housing Benefit Admin Grants (2014/15 and 2015/16 is estimated)	(623)	(550)	(500)	(450)
Total Government Funding	(8,548)	(8,441)	(6,713)	(6,503)

2.4. In headline terms the 2013/14 Settlement is some £22,000 below the position currently assumed within the Medium Term Financial Plan. This reflects the fact that the Council was assuming a loss of some 5% of general Government grant (£0.277m), whereas in reality the general grant loss was one of 5.4% (£0.299m). The details of the grant as outlined in the above table have been incorporated within the outline budgets provided as Appendix 1 to this report. With regard to 2015/16 while it is clear that further reductions in the level of public expenditure are planned at this stage no departmental spending plans have been released by the Government. Accordingly in the above table we have assumed a further 5% loss in funding which translates into a £0.300m reduction in Revenue Support Grant.

- 2.5. In 2012/13 the Council received an allocation of £1.930m in Transition Grant. In 2013/14 the Council will receive an Efficiency Grant of £0.996m which is £0.934m lower than the Transition Grant received in 2012/13. The reduction between the two grants means that the overall grant loss to the Council increases to a figure of £1.233m (£0.299 plus £0.934m). The overall grant loss could have been higher but a control mechanism in the grant calculations restricted this by providing an efficiency grant to Bolsover in respect of 2013/14. Without the payment of the efficiency grant the grant loss would have amounted to a figure of some £2.229m which illustrates the scale of the transition which is being required of Bolsover as a result of the Comprehensive Spending Review of Autumn 2010. The details of the grant as outlined in the above table have been incorporated within the outline budgets detailed on the table shown in section 3.2 of the report.
- 2.6. The key elements of the settlement are, however, the growing role of Non Domestic Rates and New Homes Bonus within the total level of government support. The figures for 2013/14 shows that RSG is now 37% of government support, Non Domestic Rates is 25% and New Homes Bonus is 6%. On current trends when New Homes Bonus benefits from its full 6 year cycle it is anticipated that it would constitute £0.930m or approximately 14% of the overall government support.
- 2.7. As outlined in the above table the Council will benefit during 2013/14 from the award of some £996,471 of Efficiency Grant. This is in effect the replacement for Transitional Grant and reflects the fact that Bolsover is one of the seven Councils across England most adversely affected by grant reductions which restricts the grant loss to 8.8% of "spending power". The main change between Transition Grant and Efficiency Grant is that the latter is viewed by the Government as having a reward element. It is anticipated that the reward level will become more pronounced in the 2014/15 settlement. The reward is based upon the fact that the Councils in question have adopted a strategic approach to efficiency savings by adopting measures such as shared services, outsourcing, a shared Chief Executive and shared procurement. Bolsover District Council has in effect already complied with all the requirements to receive the grant which demonstrates that it is adopting best practice in the pursuit of efficiency measures to protect services to local residents at a time when Government funding to local authorities is being significantly reduced. Given that this grant is effectively a one off it is recommended that Council uses it in the same fashion as transition grant namely to fund the restructuring costs and efficiency measures that are necessary to bring expenditure into line with the underlying level of resources in the post Autumn 2010 CSR

period. Given that it is currently anticipated that some £2.0m of Transition Grant will be carried forward into 2013/14 the Council currently has a significant level of resources with which to fund measures designed to increase the income base or to reduce its cost base, although it needs to be recognised that the requirement to restructure an organisation is often associated with significant costs.

- 2.8. In terms of the amount of financial support provided by Central Government National Non Domestic rates is becoming more significant than Revenue Support Grant. Council will be aware that the nature of Non Domestic Rates is also changing in that the Government is now offering local authorities an incentive to grow NNDR locally in that they will now be able to keep at least 25% of the growth in NNDR levels against the current baseline figure (although the reward will be split between the two authorities which operate in the two tier County areas). Whilst all local authorities are provided with an incentive in that they will retain a proportion of any in growth in Business Rates there is a safety net which will protect those local authorities which suffer from a reduction in their local Non Domestic Rating Base. There is therefore now a clear direct financial incentive for local authorities to promote economic growth in their area, although local authorities would take the view that they have already been active in promoting such growth in order to protect and enhance local employment levels. For Bolsover there are a number of schemes currently in the pipeline which should enhance the Non Domestic Rate Base over the next two to three years. There is, however, the clear risk that these may be offset by decline in other sectors of the economy. Council should also note that the ability to attract companies into the District may be adversely affected by the close proximity of the Enterprise Zone at Junction 29A. More generally whilst local authorities can facilitate and promote growth it does need to be recognised that there are other factors outside of the influence of local authorities which are arguably of greater significance in promoting economic growth (the national economic position, geographical location, land availability). The localisation of business rates is, however, clearly intended to provide local authorities with an incentive to promote local economic development.
- 2.9. With regard to the New Homes Bonus this is likely to account for approaching £0.9m of annual revenue by the end of the 2016/17 financial year. Every new home built, or empty property brought back into use (offset by demolitions and those properties falling out of use) will provide the local authority with an increased income of £1,000 p.a. for 6 years for a Band A property. This reward – which is funded from

recycling existing revenue grants – is intended to reward those authorities who allow and facilitate additional housing in their areas.

3. Bolsover District Council Budget

- 3.1. The report taken to Council in December 2012 reported that on the basis of ongoing work officers were anticipating that the budget in respect of the current financial year (2012/13) will be balanced with no call on General Fund Balances. Given that the Council commenced the financial year with a shortfall of some £0.925m this represents strong progress. Equally important to the balancing of the 2012/13 position is the fact that the majority of savings achieved in 2012/13 have served to reduce the Council's underlying level of expenditure. If Members had not acted decisively to address the financial position arising out of the CSR during the current financial year then the financial shortfall that the Council faces in respect of 2013/14 would be in excess of £1m rather than the £0.3m outlined below. Given this success it is crucial that Members maintain their support for an ongoing process of budget measures in order to avoid drifting into a position where the Council would have little option other than the introduction of crisis measures which would have an unplanned impact upon our local communities.
- 3.2. Moving onto the position in respect of next year the roll forward budget shows the following position:

	2013/14 £000's	2014/15 £000's	2015/16 £000's
Roll Forward Budget	10,436	10,420	10,398
Resources Available:			
RSG / NNDR	(5,232)	(4,400)	(4,180)
New Homes Bonus	(480)	(631)	(781)
Council Tax Freeze Grant re 2011/12	(90)	(90)	0
Council Tax (1% increase 2014/15 & 15/16)	(3,065)	(3,096)	(3,127)
Council Tax Support Grant	(619)	(603)	(603)
Council Tax Freeze Grant re 13/14	(30)	(30)	
Sub Total 1 - Budget Shortfall	920	1,570	1,707

Less Savings Currently Being Implemented			
Vacancy Management	(100)	(75)	(75)
Leisure Services	(60)	(60)	(60)
Street Scene (Green Bins and Garage)	(75)	(75)	(75)
BDC / NEDDC Secondments	(100)	(150)	(200)
Clowne Relocation	(100)	(100)	(80)
One Off Director Secondment Income	(100)	(0)	(0)
Fees and Charges Review	(80)	(80)	(80)
Sub Total 2 - Budget Shortfall	305	1,030	1,137
Less Items to Be Considered by Elected Members			
Increase Council Tax by 2%	(30)	(30)	(30)
Agree Scrutiny Proposals re Community Houses	(55)	(55)	(55)
Sub Total 3 - Budget Shortfall	220	945	1,052
Savings to be Identified	(220)	(945)	(1,052)
Call on General Fund Balances	0	0	0

3.3. The above table shows that on the basis of a roll forward budget the Council would be facing a financial shortfall of some £0.920m in the next financial year (see Sub Total 1). Fortunately the Council has already agreed a range of measures which provided they are successfully implemented will reduce that shortfall to one of £0.305m (see Sub Total 2). The Council has further options which it may wish to consider which include increasing council tax by 2% - rather than accepting a Government Grant of 1% - which would financially be more sustainable as the Government Grant would be withdrawn after a period of 2 years. Members could also decide to adopt the Scrutiny Option of closing the Community Houses at a saving of some £0.055m p.a. If neither of those options is agreed then the Council faces securing currently unidentified savings of £0.305m. If both are adopted then the Council would be required to identify savings amounting to some £0.220m.

3.4. Given the Council's projected financial position as set out within this report the Council needs to consider the position in respect of Council Tax. The above table is based upon the assumption that the Council accepts the Government Grant that is available on the basis that Council Tax is not increased. The grant for 2013/14 is available for a two year period at a level of 1%, but the short term nature of these Government Grants does serve to undermine the Council's longer term financial stability as both this and previous years Council Tax grants are lost at the end of a fixed time period. The manner in which Council Tax grant operates is set out in the table below where it is compared to the option of increasing Council Tax.

	13/14	14/15	15/16	Total over 3 year period
	£000's	£000's	£000's	£000's
Council Tax Grant				
2013/14 Council Tax Grant (1%)	30	30	0	60
2014/15 Council Tax Grant (Assumed on same basis as 2013/14 scheme)	0	30	30	60
2015/16 Council Tax Grant (Assumed on same basis as 2013/14 scheme)	0	0	30	30
Total Funding from Council Tax Grant	30	60	60	150
Increase Council Tax Option by 2% per annum	60	120	180	360
Band A Council Tax (£'s p.a.) at 2% - currently £105.43	£107.54	£109.68	£111.88	

3.5. It is clear from the above table that an ongoing increase in the level of Council Tax does provide a significant financial benefit to the District Council. On the basis of the above table the Council would have additional income of some £0.120m for the 2015/16 financial year (£0.180m less £0.060m) if it adopts a policy to increase Council Tax by 2% per year. Also, the Council Tax income will continue to be received in subsequent years whereas the Council Tax Grant drops out after a fixed time period. Given the extent of the ongoing reductions in the level of government grant, uncertainties over the level of Non Domestic

Rates income, the New Homes Bonus and the localisation of Council Tax benefit then this option of raising more income locally clearly needs to be considered.

- 3.6. While there are, significant arguments for opting for an increase in the level of Council Tax in 2012/13 in order to strengthen the Council's underlying financial position and to reduce the reliance on expenditure reductions as a means of balancing the budget in future financial years, this needs to be balanced against the detrimental impact which the current economic situation and general inflation are having on local taxpayers. For a Band A Council Tax payer the Council Tax bill under the scenario outlined in the above table would be some 6% higher with an actual bill for District Council services of some £112 rather than the current £105. For a Band D Council Tax payer the bill would rise from one of £150 to one of £158
- 3.7. In arriving at a decision concerning an appropriate strategy in respect of Council Tax, Members need to take into account the impact of higher tax levels on local residents, against the benefits that local residents derive from protecting the quality of services that residents receive from the Council.

4. Strategy for Balancing the Budget

- 4.1. Clearly the timing of the Government's financial settlement has left the Council with no realistic option in the time available other than to balance the budget on the basis of a target of unidentified savings to be achieved, as was the case in the current financial year. It is, however, important that the Council arrives at a range of agreed measures for achieving the necessary level of savings at the earliest opportunity. It is recommended that Officers are requested to report progress in identifying the necessary level of savings to all future meetings of Council until the required level of savings is achieved.
- 4.2. As part of this process consideration will be given to ensuring that the measures agreed in respect of 2013/14 provide a suitable platform for agreeing the measures that are necessary to address the 2014/15 position. One option for the Council would be to focus its attention on resolving the position in respect of next year (2013/14) and only after next year's issues are resolved moving onto looking at the greater level of cuts which will need to be achieved in respect of 2014/15. While this approach would have the advantage of enabling a better focus on the 2013/14 position, it does need to be recognised that it is important that the Council avoids having to revisit services to introduce further

reorganisation within a relatively short period of time in order for the Council to continue to operate within its funding constraints.

- 4.3 Secondly, the level of service reorganisation which is necessary to achieve savings against the background of a local authority which has been delivering savings ever since the Gershon Efficiency drive is now significant as the easy options have long since been taken. That means that detailed planning of change is essential if the level of savings required for 2014/15 is to be delivered. Accordingly it is recommended that the Council adopts a longer term perspective in terms of its approach to achieving savings and looks to implement a package which will deliver the overall level of savings of £1.030m which are necessary to address the identified shortfall in respect of 2014/15.

5. Housing Revenue Account (HRA).

- 5.1 While the majority of this report is concerned with the position on the Council's General Fund Council should note that a parallel piece of work is being undertaken in respect of the Council's Housing Revenue Account. The management of that account has been fundamentally changed by the introduction of the localised HRA with effect from April 2012. Effectively the financial arrangements with respect to the HRA are now entirely managed on a local basis and there is accordingly a greater element of stability in the financial position of the HRA. With the reduction in the level of intervention by national government local authorities will now be dependent upon the development of a robust 30 Year Business Plan in order to inform strategic and operational decision making.
- 5.2. The Council developed a 30 Year Business Plan in conjunction with external consultants as part of the process of implementing the localisation of the HRA in April 2012. That Plan has now been brought up to date to reflect the final details of the HRA settlement and some key factors such as the actual interest rates at which the PWLB loan to buy the Council out of the national HRA pool were secured. While the Council has entered into the localised HRA with all its stock at the Decent Homes standard it now needs to develop detailed plans for ensuring that this standard is maintained. At the previous meeting of Council on December 2012 it was agreed that the Council would commission work to develop a detailed stock condition survey down to individual house level which will inform the Council's future Asset Management arrangements.
- 5.3. The key decision that will need to be made in respect of the HRA with regard to the 2013/14 financial year concerns the setting of the rent

level. Under the convergence framework established by Central Government it is anticipated that an average rent increase of some 5.62% will be required in respect of the 2013/14 financial year. This rent increase is necessary in order to comply with national government policy which requires that Council House rents will both increase with inflation (2.6% in September 2012) and that Council House rents should be increased until they are in line with those of other social housing providers (Housing Associations). While this policy will mean a period of above inflation increases for Council House Tenants it should be noted that Council House rents will remain below those charged in the private sector. Clearly given the present economic background an increase in rent levels of 5.62% may result in financial difficulties for the Council's tenants. If, however, the Council is to provide decent quality housing and service the debt taken on from the HRA settlement then the financial regime under which it operates effectively requires that rents need to be increased in line with Government targets. The Council will, however, continue to support a range of policies which are intended to address the problems of financial exclusion given that such exclusion is likely to increase as a result of the wider economy and welfare reform.

6. Capital Programme

- 6.1 In the same way as the Council's Revenue Budgets the capital programme is divided into two individual elements. The first of these elements is the General Fund Programme. There is no central government funding provided to District Councils in order to promote their capital expenditure priorities and therefore they are dependent upon generating capital receipts or securing external grant funding from such sources as the Lottery or Europe to promote their objectives. In respect of the current financial year Bolsover District Council is currently operating a substantial capital programme which is effectively funded by the sale of the Sherwood Lodge site and one other major disposal. These schemes are included within the current capital programme. It is anticipated that these schemes will be concluded in the early part of the next financial year (2013/14) and that at that stage a further report will be brought forward to Council setting out the position in respect of the Council's Capital Programme. Whilst officers are of the view that all of the conditions necessary to secure these capital receipts are in place until the actual cash is received there is an element of financial exposure which is best managed by minimising any further expenditure commitments until these resources are secured.
- 6.2 With regard to the HRA capital programme this remains an area with a significant level of ongoing capital expenditure. On the basis of current

information as set out within the HRA Business Plan it will be possible to fund an ongoing programme of some £3.3m from resources generated within the HRA, while in addition the Council can utilise its headroom of some £11.4m in order to fund further capital expenditure. While this is a significant capital programme Council needs to recognise that it is essential that this funding is utilised to retain the Council's housing stock at a 'Decent Homes' standard. In order to fund the Council's Capital Programme on an ongoing basis it is necessary that the Council remains committed to operating within the context of the Government's Rent Convergence Strategy. While the Government has less influence to ensure that Council's continue to comply with this policy since the introduction of the localisation of the HRA reform, Council needs to recognise that the Settlement figures of the spring of 2012 were based upon the fact that local authorities would continue with a rent convergence policy. Where local authorities do not continue to operate within those guidelines then the financial sustainability of the local HRA will be undermined. The major impact of undermining the financial position is that the local authority landlord will no longer be able to fund the renovation and renewal of its property so that it continues to meet the 'Decent Homes' standard.

Equality issues will be considered as part of future reports bringing forward proposals to achieve the necessary level of savings.

7. Risk

- 7.1 One of the key issues of the budget in respect of 2013/14 is that local authorities are operating in an environment characterised by increasing levels of financial and operational risk. Under the Government localism agenda two of the key changes are the localisation of both Council Tax benefit and Non Domestic rates. While local authorities benefit from an increased level of discretion the reforms bring with them a significant increase in the level of financial risk, most of which are linked to the position in respect of the local and the wider national economy. Although local authorities will be exposed to some significant risks they have a limited ability to manage the underlying risk.
- 7.2 In addition to the wider issues arising from the localism agenda there are operational risks which will arise from issues such as the administration and management of the new schemes including the collection rates. While these operational risks are unlikely to have a significant impact during 2013/14 itself it will be necessary to review performance in respect of 2013/14 when establishing budgets for next year 2014/15, with operational issues experienced during 2013/14 potentially resulting

in a financial deficit which will need to be addressed when setting the 2014/15 budgets.

- 7.3 Finally, in order to continue to operate within the context of our underlying level of resources Bolsover District Council needs to identify and achieve some £0.305m of savings in the 2013/14 financial year and a sum of £1.030m needing to be identified in order to balance the budget in respect of 2014/15. To achieve this level of savings against a background in which significant savings have been delivered over the current and previous financial year will invariably involve some risks of disruption to performance levels and services. While the Council will set out to minimise the impact of the expenditure reductions on the services provided to local residents it does need to be recognised that the scale and ongoing nature of the expenditure reductions will inevitably have a detrimental impact on services. The issue of the impact upon local residents will be considered as part of the process of giving consideration to the proposed budget reductions which will be necessary in order to balance the budget for 2013/14.

IMPLICATIONS

Financial: Outlined in the report

Legal: This report is part of a process intended to ensure that the Council sets a balanced budget in respect of each financial year. The Council is legally obliged to set a balanced budget and this report will assist Elected Members in agreeing an appropriate budget in respect of 2013/14.

Human Resources: None

RECOMMENDATIONS

- 1. That Executive notes the report in respect of the Council's budget 2013/14 and Medium Term Financial Plan projections in respect of 2014/15 and 2015/16.**
- 2. That Executive request that the report be considered by both the Budget Scrutiny Committee at its meeting of 16th January and by the Council meeting on 23rd January 2013.**

3. That Executive notes that further reports will be brought back to Executive on the 6th February 2013, to Budget Scrutiny Committee on a date to be arranged and to Council on both the 13th February and the 1st March 2013.

REASON FOR DECISION

To update Members on the work that is currently taking place in order to develop a revised Medium Term Financial Plan 2013 to 2016, and in particular a budget in respect of 2013/14.

ATTACHMENTS: N

FILE REFERENCE: N

SOURCE DOCUMENT :